REPORT ON EXAMINATION

OF THE

CHUBB CUSTOM INSURANCE COMPANY

AS OF

DECEMBER 31, 2006

I, Matthew Denn, Insurance Commissioner of the State of Delaware, do hereby certify that the attached REPORT ON EXAMINATION, made as of DECEMBER 31, 2006 of the

CHUBB CUSTOM INSURANCE COMPANY

is a true and correct copy of the document filed with this Department.

ATTEST BY: Antoinette Handy

DATE: 16 JUNE 2008

In Witness Whereof, I HAVE HEREUNTO SET MY HAND AND AFFIXED THE OFFICIAL SEAL OF THIS DEPARTMENT AT THE CITY OF DOVER, THIS 16TH DAY OF JUNE.

Insurance Commissioner of the State of Delaware

LIBERTY AND INDEPENDENCE

Insurance Commissioner

REPORT ON EXAMINATION

OF THE

CHUBB CUSTOM INSURANCE COMPANY

AS OF

December 31, 2006

The above captioned Report was completed by examiners of the Delaware Insurance Department.

Consideration has duly been given to the comments, conclusions, and recommendations of the examiners regarding the status of the Company as reflected in the Report.

This Report is hereby accepted, adopted, and filed as an official record of this Department.

MATTHEW DENN
INSURANCE COMMISSIONER

DATED this 16TH Day of JUNE 2008.

Table of Contents Page

SALUTATION

Honorable Alfred Gross
Chairman, Financial Condition (E)
Committee, NAIC
State Corporation Commission
Virginia Bureau of Insurance
1300 East Main Street
Richmond, VA 23218

Honorable Steven M. Goldman
Secretary, Northeastern Zone (I), NAIC
Commissioner of Insurance
State of New Jersey Department of
Insurance and Banking
20 West State Street, 11^{th} Floor
P.O. Box 325 Trenton, NJ 08625-0325

Honorable Julie Mix McPeak
Secretary, Southeastern Zone (II), NAIC
Office of Insurance
Commonwealth of Kentucky
P.O. Box 517
Frankfort, KY 40602-0517

Honorable Merle D. Scheiber
Secretary, Midwestern Zone (III), NAIC
South Dakota Division of Insurance
Department of Revenue and Regulation
445 East Capitol Avenue
Pierre, SD 57501-3185

Honorable Morris Chavez
Secretary, Western Zone (IV), NAIC
Superintendent, New Mexico Public
Regulation Commission Insurance Division
1120 Paseo de Peralta
Santa Fe, New Mexico 87504-1269

Honorable Matthew Denn
Insurance Commissioner
State of Delaware
841 Silver Lake Blvd.
Dover, DE 19904

Commissioners:

In compliance with instructions and pursuant to statutory provisions contained in Certificate of Authority Number 07-029, an examination has been made of the affairs, financial condition and management of

CHUBB CUSTOM INSURANCE COMPANY

hereinafter referred to as “Company” incorporated under the laws of the State of Delaware. The Company’s registered office in the State of Delaware is located at 1209 Orange Street, in care of the Corporation Trust Corporation, Wilmington, Delaware 19801. The examination was conducted at the administrative offices of the Company located at 15 Mountain View Road, Warren, New Jersey. The examination of the Company was conducted concurrently with, and as a part of a larger coordinated examination of both the Delaware affiliate, Executive Risk Indemnity (ERII) and other affiliates, collectively known as the “Chubb Pool”. Excluding the Company and ERII, twelve (12) other individual companies were covered under the coordinated examination. See Territory and Plan of Operation for information related to the Chubb Pool. Separate reports of examination were filed for each company.

The report of examination thereon is respectfully submitted.

SCOPE OF EXAMINATION

The financial condition examination of the Company, covered the period from January 1, 2002 through December 31, 2006, and consisted of a general survey of the Company’s business policies and practices; management and any corporate matters incident thereto; a verification and evaluation of assets and a determination of liabilities. Transactions subsequent to the latter date were reviewed to the extent deemed necessary.

The format of this report is designed to explain the procedures employed on the examination and the text will explain changes wherever made. If necessary, comments and recommendations have been made in those areas in need of correction or improvement. In such cases, these matters were thoroughly discussed with responsible personnel and/or officials during the course of the examination.

The general procedure of the examination followed rules established by the National Association of Insurance Commissioners (NAIC) Committee on Financial Condition Examiners Handbook as adopted by the Delaware Insurance Department under 18 Del. C. §526, and generally accepted statutory insurance examination standards.

In addition to items noted in this report, the following topics were reviewed and are included in the files of this examination:

Corporate Records
Fidelity Bonds
Agents' and Employees' Welfare
NAIC Ratios
Legal Actions
Regulatory Correspondence
All asset and liability items not mentioned

The examination was conducted in accordance with the Association Plan of Examination guidelines established by the NAIC. The Company is a .5% member of a Chubb Pool, the lead Company of which is the Federal Insurance Company (IN). See Territory and Plan of Operation for more details. The following states participated in the examination: Indiana, New York, New Jersey, Wisconsin, Oregon, Texas, Connecticut and Minnesota.

In planning and conducting the examination, consideration was given to the concepts of materiality and risk, and examination efforts were directed accordingly. The workpapers of the Company's public accountant prepared in support of the Company's annual audit were reviewed, and utilized to the extent deemed appropriate and practicable.

HISTORY

The Company was incorporated, by representatives of The Chubb Corporation (Chubb), on October 3, 1980, under the laws of Delaware. It began business on December 26, 1980. The Company was formed for the purpose of writing excess and surplus lines insurance. Administration of the Company's affairs is under the same general management as the parent, Federal Insurance Company (Federal). Federal is an Indiana domiciled company and is wholly owned by Chubb, a New Jersey holding company.

CAPITALIZATION

At December 31, 2006, the Company had 2,500 common shares authorized with 1,500 shares issued and outstanding with a par value of $2,500 per share. Capital paid up is $3,750,000. All outstanding capital stock is owned by Federal. Since its last examination, the Company has not paid dividends, nor did it authorize, issue or repurchase additional shares. The schedule below shows the changes in the Company's capital and surplus from the previous examination to the current examination.

	Common Capital Stock	**Gross Paid – in and Contributed Surplus**	**Unassigned Funds (Surplus)**	**Total**
Surplus December 31, 2001	$3,750,000	$20,850,000	$17,286,361	**$41,886,361**
Operations[1]				
2002 Operations	0	0	4,054,992	**4,054,992**
2003 Operations	0	0	2,676,966	**2,676,966**
2004 Operations	0	0	6,865,056	**6,865,056**
2005 Operations	0	0	6,826,445	**6,826,445**
2006 Operations	0	0	10,877,593	**10,877,593**
Capital Contribution from parent				
2003		10,000,000		**10,000,000**
Total December 31, 2006	**$3,750,000**	**$30,850,000**	**$48,587,413**	**$83,187,413**

(1) Operations is defined as: net income, net unrealized capital gains or loss, change in net unrealized foreign exchange capital gain or loss, change in net deferred income tax, change in non-admitted assets, change in provision for reinsurance, cumulative effect of changes in accounting principles and aggregate write-ins for gains and losses in surplus.

MANAGEMENT AND CONTROL

Pursuant to the general corporation law of the State of Delaware, as implemented by the Company's certificate of incorporation and bylaws, all corporate powers of the Company and its business, property and affairs are managed by or under the direction of the Board of Directors. The Board of Directors shall consist of at least three (3) members and no more than seven (7) members and meet at least annually.

The Board of Directors is currently comprised of seven members, all of whom were elected at the annual meeting of shareholders held on May 16, 2006. The members of the Board of Directors are elected for a term of one year and serve until the next annual meeting of shareholders and until their successors are elected and qualified.

The members of the Board of Directors serving as of December 31, 2006, were as follows:

Director's Name	**Principal Business Affiliation**
Thomas Firouz Motamed	Chubb & Son, a division of Federal Insurance Company
Walter Brian Barnes	Chubb & Son, a division of Federal Insurance Company
Jon Cory Bidwell	Chubb & Son, a division of Federal Insurance Company
William Andrew Macan	The Chubb Corporation
Douglas Alan Nordstrom	Chubb & Son, a division of Federal Insurance Company
Henry Bruce Schram	Chubb & Son, a division of Federal Insurance Company
John Louis Angerami	Chubb & Son, a division of Federal Insurance Company

The Company's bylaws provide that the Board of Directors, by resolution, may designate one or more committees, each consisting of at least one member. As of December 31, 2006, the Board of Directors had no committees.

The bylaws of the Company state that the Board of Directors has the power to elect officers of the Company, and that those officers shall be a President, one or more Vice Presidents, a Secretary and a Treasurer. As deemed appropriate, the Board of Directors may decide to elect additional officers from time to time. At December 31, 2006, the Company's principal officers and their respective titles are as follows:

Officer	**Title**
John Louis Angerami	President
Walter Brian Barnes	Vice President, Actuary
William Andrew Macan	Vice President, Secretary
Douglas Alan Nordstrom	Vice President, Treasurer

INTERCOMPANY AGREEMENTS

Service Agreement

Effective January 1, 1998, the Company entered into a service agreement with Federal. Subject to supervision and control by the Company's Board of Directors, Federal provides the Company with underwriting, claims and other operating services.

Under terms of the agreement, the Company shall pay periodic advances of reasonable amounts to Federal. After the close of each calendar year, Federal shall submit to the Company a statement setting forth the aggregate of advances received by Federal from the Company and the total of all expenses paid by Federal applicable to the business of the Company during the year. This agreement may be terminated immediately upon mutual consent or by either party upon not less than 60 days prior written notice to the other. Costs incurred under this agreement during 2006 were $6,822,969.

Consolidated Tax Allocation Agreement

Chubb and various affiliates, including the Company, have an agreement dated July 29, 1981, whereby they file a consolidated federal income tax return. Effective July 19, 1999, the agreement was amended to include the following subsidiaries: Executive Risk Indemnity Inc., Executive Risk Specialty Insurance Company, Quadrant Indemnity Company, and Executive Risk (Bermuda) Ltd.

Under the terms of the agreement, each Company's income tax liability is calculated in accordance with the ratio of its taxable income to the total taxable income of group members having taxable income. All inter-company balances shall be settled in cash within a reasonable time following the filing of the return, but not later than ninety days from the date of filing. The agreement is terminated if the companies agree in writing to terminate the agreement, or a company affiliated with the group ceases business or the affiliated group fails to file a consolidated tax return for any taxable year.

Other Affiliated Agreements

As of the examination date, the Company was a party to four (4) other service reimbursement agreements with separate affiliates of Chubb. For the year ended 2006, no costs were incurred by the Company under these agreements. Inter-company agreements have been properly approved and filed with the Delaware Insurance Department.

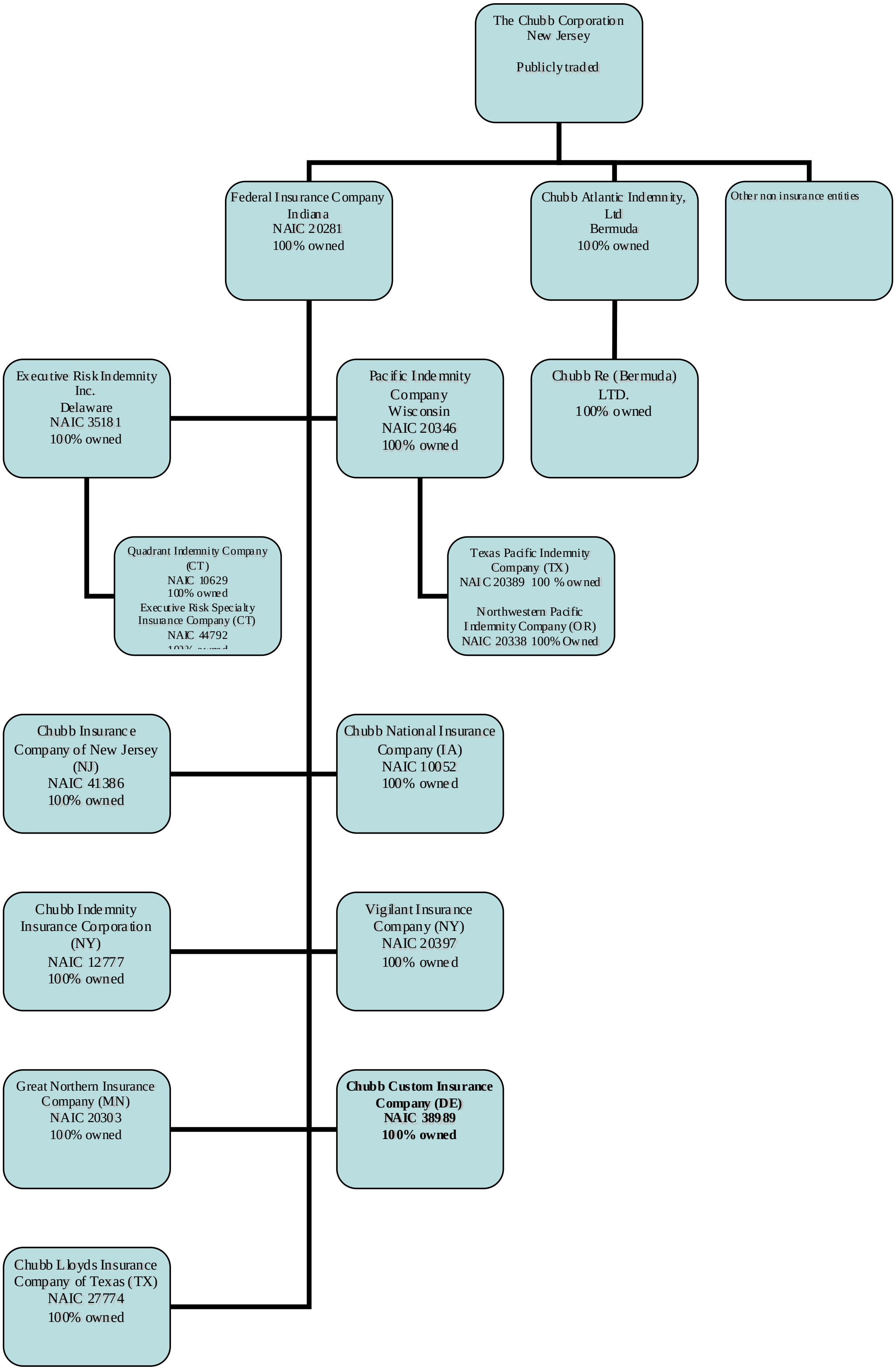
INSURANCE HOLDING COMPANY SYSTEM

The Company is a member of Chubb's insurance holding company system as defined under 18 Del. C. §5000 "Insurance Holding Companies." Holding company registration statements were properly filed by the Company with the Delaware Insurance Department.

All common stock is owned by the Federal Insurance Company, an Indiana domiciled insurance company.

The ultimate controlling entity is Chubb, a New Jersey Corporation, which is primarily engaged, through its subsidiaries in the business of property and casualty insurance. Chubb ranks among the largest insurance organizations in the United States, and provides specialized coverage for select commercial customer groups, as well as unique products and services for upscale personal lines markets. For the year ending 2006, Chubb possessed assets of approximately $50.3 billion and shareholders equity of $13.9 billion. The Chubb Corporation is publicly traded on the New York Stock Exchange under the symbol "CB". The following condensed organizational chart, illustrates the identities and relationships between the Company and its parent, affiliates and subsidiaries of pooled entities as of December 31, 2006.

Chubb Custom Insurance Company



TERRITORY AND PLAN OF OPERATION

Chubb, through its subsidiaries, provides property and casualty insurance to businesses and affluent individuals. Chubb operates through three segments: Commercial Insurance, Specialty Insurance, and Personal Insurance. The Commercial Insurance segment offers a range of commercial customer insurance products, including coverage for multiple perils, casualty, workers' compensation, property, and marine. The Specialty Insurance segment provides various professional liability products for privately and publicly owned companies, financial institutions, professional firms, healthcare organizations and surety business. The Personal Insurance segment offers products for individuals with homes and possessions who require more coverage choices and higher limits than standard insurance policies. This segment primarily covers homeowners and automobiles. Chubb provides its products and services through independent insurance agents and brokers in the United States, Canada, Europe, Australia, parts of Latin America, and Asia. Chubb is headquartered in Warren, New Jersey.

Chubb does not utilize a significant in-house distribution model for its products. Instead, in the United States, Chubb is represented by approximately 5,000 independent insurance agencies and accepts business on a regular basis from approximately 500 insurance brokers. In most instances, these agencies and brokers also represent other companies that compete with Chubb. Chubb's branch and service offices assist these agencies and brokers in producing and servicing the group's business. In addition to the administrative offices in Warren and Whitehouse Station, New Jersey, Chubb has zone, branch and service offices throughout the United States.

Chubb is represented by approximately 3,000 insurance agencies and brokers outside the United States. Local branch offices of the group assist the agencies and brokers in producing and servicing the business. In conducting its foreign business, Chubb reduces the risks relating to currency fluctuations by generally maintaining investments in those foreign currencies in which the group has loss reserves and other liabilities. Such investments generally have characteristics similar to the liabilities in those currencies. The net asset or liability exposure to the various foreign currencies is regularly reviewed. The UK branch of the Company writes US risks in Europe. Business produced by the Chubb pool's foreign branches is retained by Federal and is not pooled.

The Company is licensed in two (2) states, Delaware and New Jersey. The Company also operates on a surplus lines or non-admitted basis in forty-eight (48) states and the District of Columbia. Additionally the Company is authorized in the United Kingdom (UK) and Northern Ireland through a branch established under the laws of the UK.

The group is comprised of fourteen U.S. property and casualty insurance companies. The Company and eight other affiliates within the Chubb group participate in an inter-company pooling arrangement, the Chubb Pool. The inter-company pooling arrangement covers substantially all lines of business with the exception of foreign business and run-off of aircraft voluntary pool. Each participant company retains a share of its direct and assumed business subject to the pooling arrangement, and cedes the remaining share to the other member companies. Four group members, which do not participate in the pooling arrangement, cede 100% of their business to one of the other nine (9) companies within the group, as follows: Texas Pacific Indemnity Company and Northwestern Pacific Indemnity Company, wholly owned subsidiaries of Pacific Indemnity, cede 100% of their business to Pacific Indemnity; Chubb Insurance Company of New Jersey, wholly owned subsidiary of Federal, cedes 100% of its business to Federal; and Chubb Lloyds Insurance Company of Texas cedes 100% of its business to Great Northern Insurance Company.

The following is a list of the companies within the Chubb Pool and their respective participation percentage:

Name of subsidiary	**Direct Premium (000's) omitted**	**Pooling percentage**	**Domicile**
Federal Insurance Company	$ 6,003,513	68.5%*	Indiana
Pacific Indemnity company	592,024	17.0%	Wisconsin
Executive Risk Indemnity Inc.	375,093	8.0%	Delaware
Great Northern Insurance Company	1,258,590	4.0%	Minnesota
Chubb National Insurance Company	68,442	0.5%	Indiana
Vigilant Insurance Company	716,981	0.5%	New York
Chubb Custom Insurance Company	379,544	0.5%	Delaware
Chubb Indemnity Insurance Company	242,391	0.5%	New York
Executive Risk Specialty Insurance Company	71,053	0.5%	Connecticut
Quadrant Indemnity Company	4,946	0.0%*	Connecticut
Chubb Insurance Company of NJ	96,938	0.0%	New Jersey
Northwestern Pacific Indemnity	38,514	0.0%	Oregon
Texas Pacific Indemnity	6,369	0.0%	Texas
Chubb Lloyds Insurance Co. of Texas	171,929	0.0%	Texas
Total	$ 10,026,327		

*Effective October 1, 2006, Quadrant's participation in the inter-company reinsurance pool was terminated, and Federal's pool participation was increased from 68% to 68.5%. Also, effective October 1, 2006, Quadrant cedes 100% of its business to the pool.

The largest net amount insured in any one risk by the Company, excluding workers compensation is $1,951,459.

GROWTH OF COMPANY

The financial growth of the Company since its last examination (2001) shown below was compiled from its filed annual statements:

Year	Net Written Premium	Assets	Liabilities	Common Stock	Gross Paid –in	Unassigned Surplus	Net Income
2001	$30,956,964	$137,061,735	$ 95,175,374	$3,750,000	$20,850,000	$17,286,361	$5,186,310
2002	40,641,344	213,130,775	167,189,422	3,750,000	20,850,000	21,341,353	4,133,502
2003	49,081,416	266,119,558	207,501,239	3,750,000	30,850,000	24,018,319	3,144,157
2004	50,203,031	285,935,523	220,452,148	3,750,000	30,850,000	30,883,375	6,363,413
2005	49,106,633	293,491,976	221,182,156	3,750,000	30,850,000	37,709,820	6,437,875
2006	46,936,569	309,146,531	225,959,118	3,750,000	30,850,000	48,587,413	11,131,142

Since its last examination, growth of the Company has taken the form of the following:

- A 52% increase in net premiums written
- A 126% increase in admitted assets
- A 137% increase in liabilities
- A 181% increase in unassigned surplus

The following factors contributed to the Company's growth:

- The increase in net written premium since the previous examination was due to an increase in rates as well as new business.
- The increase in unassigned surplus during the examination period was primarily attributable to net income of approximately $31 million.
- The increases in admitted assets were mainly due to operating cash flow in the amount of $129 million and a $32 million increase in premiums receivables. The increase in receivables is primarily due to increased direct business.
- An increase in gross paid in capital is due to a capital contribution of $10 million.
- The increase in liabilities was due to the establishment, in 2002, of $46 million in deposit liabilities for contracts that do not transfer risk, and an increase in inter-company ceded reinsurance payable of $ 41 million.

REINSURANCE

The Company reported the following distribution of premiums in 2006 as follows:

Direct Written	$ 379,543,697
Reinsurance Assumed from Affiliates	50,206,312
Total Gross Premiums	429,750,009
Reinsurance Ceded to Affiliates	(378,052,906)
Reinsurance Ceded to Non-Affiliates	(4,760,534)
Subtotal Reinsurance Ceded	(382,813,440)
Net Written During Year	$ 46,936,569
Net Earned During Year	$ 47,376,932

The group's reinsurance program consists of an inter-company reinsurance pool, and an external (other than affiliated companies) reinsurance program, including facultative reinsurance coverage purchased on an as-needed basis.

Inter-company pooling

Chubb's inter-company reinsurance pool operates differently from a traditional pooling arrangement whereby participants cede all of their business to a lead reinsurer, and the lead reinsurer retrocedes to each company a portion of all net business written. In the case of the group's pool, each participating company retains a designated percentage of their own business and cedes the remainder of their business to the remaining pool companies. Each participating company also assumes a designated percentage of all other pool participants' business. The Company, which has a .5% share of the pool, cedes 99.5% of its business to the other eight (8) pool participants. The Company, in turn, then assumes .5% of the subject business from each of the remaining eight (8) pool participants. Although the methodology utilized by the group differs from a "traditional" pooling arrangement, the financial results are identical.

The pool participation of each member is set forth in a pooling reinsurance agreement. A similar agreement has been executed by each of the other direct pool participants. Each agreement is identical except for the name of the ceding entity, the signature page, and an apportionment schedule, which sets forth each company's share of the pooled results. Effective January 1, 2000, the Company became a .5% participant in the pool.

Effective October 1, 2006, the Company and the other pool companies each have a quota share reinsurance agreement with Quadrant Indemnity Company, an affiliate, whereby Quadrant Indemnity Company cedes to the pool 100% of the policy liabilities pursuant to terms of the agreement. As consideration for the reinsurance provided under this agreement, the pool companies, as reinsurers, are entitled to 100% of all premiums written on the policies covered by the agreement. This agreement was approved by the Delaware Department of Insurance.

Assumed

The Company did not assume premium from non-affiliates during the examination period.

Ceded

The Company's external reinsurance program consists of a combination of per risk, clash and catastrophe reinsurance. The basic structure of the Company's external reinsurance program has remained relatively unchanged during the period under examination.

Because the group's underwriting is highly diversified, reinsurance protection is tailored to adapt to the risk management needs of each of the primary areas of insurance underwritten. The group purchases outside reinsurance to protect pre-determined net retention levels. Outside reinsurance is purchased on a group basis. Each pool participant shares both the costs and recoveries in proportion to their pool percentage. As a result, the Schedule F for each company will be substantially the same and in proportion to their participation in the pool. The only amounts that differ will be amounts ceded to the inter-company pool.

Reinsurance can be grouped into three broad categories: property risks, casualty risks, and personal accident. During 2005 the group terminated its surety reinsurance program. The following schedule outlines significant reinsurance coverages for these categories for the pool as of the examination date:

Property

Property per Risk Excess of Loss - all business classified as property, worldwide

1st layer - $25 million xs of $25 million – 90% placed
2nd layer - $75 million xs $50 million – 100% placed
3rd layer - $125 million xs $125 million – 100% placed
4th layer - $ 200 million xs of $250 million – 95% placed

North American Property Catastrophe – all business classified as property, North America only

1st layer - $150 million xs $350 million – 55.69% placed
2nd layer - $400 million xs of $500 million – 74.92% placed
3rd layer - $400 million xs of $900 million – 77.07% placed
4th layer - $350 million xs of $1.3 billion – 78.82% placed (North East US only)
5th layer - $400 million xs of $1.65 billion - 42.15% placed (North East US only)

Property Per Risk – All business written by the Company

$10 million xs $5 million ultimate net each loss, each risk, maximum $20 million any one loss occurrence.

Casualty

Casualty Clash - all business classified as casualty

1st layer - $25 million xs of $75 million – 42% placed
2nd layer - $50 million xs of $100 million – 62.75% placed

Chubb Custom Casualty - Casualty business written by the Company

Excess - 50% Quota share of policies greater than $2 million, up to and including $5 million. – 100% placed

Umbrella - $2 million p/o $5 million for policies excess of $5 million, each and every loss 100% placed

Personal Accident

During the examination period, the Company did not renew its workers' compensation reinsurance program. However, the Company does have an accidental death reinsurance program.

Accident Per Life – Covers accidental death portion of all policies

$3 million xs $2 million – 80% placed

Accidental Catastrophe – Covers accidental death (defined as 6 lives per event)

$5 million xs $5 million (conveyance only) – 100% placed
$15 million xs $10 million – 100% placed
$25 million xs $25 million – 100% placed
$50 million xs $50 million – 72% placed
$50 million xs $100 million – 64% placed
$50 million xs $150 million – 57% placed

Harbor Point Limited

In December 2005, Chubb completed a transaction involving a new Bermuda based reinsurance company, Harbor Point Limited. As part of the transaction, Chubb transferred continuing reinsurance assumed business and certain related assets, including renewal rights, to Harbor Point Limited. In exchange, Chubb received from Harbor Point $200 million of 6% convertible notes and warrants to purchase common stock of Harbor Point Limited. The notes and warrants represent in aggregate on a fully diluted basis, approximately 16% of Harbor Point Limited. Harbor Point Limited generally did not assume reinsurance liabilities relating to reinsurance contracts incepting prior to December 31, 2005. Chubb retained those liabilities and assets.

Other than, pursuant to certain agreements entered into with Harbor Point Limited, Chubb no longer engages in the reinsurance assumed business. However, Harbor Point Limited has the right, for a transition period of up to two years, to underwrite specific reinsurance business on Chubb's behalf. Chubb retains a portion of any such business and cedes the balance to Harbor Point Limited in return for a fronting commission. The following contracts were entered into:

- Casualty Quota Share – 75% Quota share Effective December 15, 2005 – December 31, 2007
- Property – 90% Quota share Effective December 15, 2005 – December 31, 2007

During 2006, the group ceded reinsurance premiums written of approximately $270 million to Harbor Point Limited.

ACCOUNTS AND RECORDS

As discussed under Inter-company Agreements, all business operations of the Company, including Accounts and Records, are managed by Federal. As part of the concurrent and coordinated examination of the group, examiners representing the Indiana Insurance Department reviewed and evaluated the Company's operational and organizational controls. The areas evaluated included computer systems, accounting systems, the Company's organizational structure, and the processing structure.

The Company operates in a computer-dominated environment. A high-level assessment of the internal control structure and processes for the Company's accounting and computer systems was discussed with management, and reviewed after completion of questionnaires developed by the NAIC and the Indiana Department of Insurance. The discussions and review did not mention any material deficiencies in the Company's internal control structure.

An external accounting firm audits the statutory-basis financial statements of the Company annually. The Company's external firm reviewed the internal control structure in order to establish the necessary audit procedures required to express an opinion on the December 31, 2006 financial statements. No significant or qualifying deficiencies were found to exist in the design or operation of the internal control structure.

Based on the completed examination of the filed annual statements, observations, and discussions with management, the accounting systems and procedures were deemed to conform to insurance accounting practices and requirements.

FINANCIAL STATEMENTS

The following financial statements as determined by this examination are presented herein:

Analysis of Assets as of December 31, 2006
Liabilities, Surplus and Other Funds as of December 31, 2006
Underwriting and Investment Exhibit Statement of Income for the year ended December 31, 2006
Capital and Surplus Account for the year ended December 31, 2006

Analysis of Assets
As of December 31, 2006

	Assets	Non admitted Assets	Net Admitted Assets	Note
Bonds	$211,584,813		$211,584,813	1
Preferred stocks	1,007,480		1,007,480	
Cash, cash equivalents and Short-term investments	25,780,524		25,780,524	
Investment income due and accrued	1,912,189		1,912,189	
Uncollected premiums and agents' balances in course of collection	56,688,056	$2,575,150	54,112,906	
Deferred premiums, agents' balances and installments, booked but deferred and not yet due	2,896,937	11,025	2,885,912	
Amounts recoverable from reinsurers	2,653,860		2,653,860	
Net deferred tax asset	7,250,034	3,204,616	4,045,418	
Receivable from parent, subsidiaries and affiliates	4,825,216		4,825,216	
Aggregate write-ins for other than invested assets	1,691,807	1,353,594	338,213	
Totals	$316,290,916	$7,144,385	$309,146,531	

Liabilities, Surplus and Other Funds
As of December 31, 2006

		Note
Losses	$ 64,704,780	2
Reinsurance payable on paid loss and loss adjustment expenses	-0-	
Loss adjustment expenses	19,163,001	2
Commissions payable, contingent commissions and other similar charges	613,305	
Other expenses	2,061,509	
Taxes, licenses and fees	338,218	
Current federal and foreign income taxes	962,343	
Unearned premiums	25,166,435	
Dividends declared and unpaid: Policyholders	524,437	
Ceded reinsurance premiums payable	62,502,606	
Funds held by the Company under reinsurance treaties	408,297	
Amounts withheld or retained by Company for account of others	74,476	
Provision for reinsurance	1,180,039	
Payable to parent, subsidiaries and affiliates	287,790	
Aggregate write-ins for liabilities	47,971,882	
Total liabilities	225,959,118	
Common capital stock	$ 3,750,000	
Gross paid in and contributed surplus	30,850,000	
Unassigned funds	48,587,413	
Surplus as regards policyholders	$ 83,187,413	
Total	$ 309,146,531	

Underwriting and Investment Exhibit: Statement of Income
For the Year Ended December 31, 2006

		Note
Underwriting Income		
Premiums earned	$ 47,376,932	
Deductions:		
Losses incurred	$ 21,143,937	
Loss expenses incurred	6,248,757	
Other underwriting expenses incurred	13,084,733	
Aggregate write-ins for underwriting deductions	4,241	
Total underwriting deductions	$ 40,481,668	
Net underwriting gain or (loss)	$ 6,895,264	
Investment Income		
Net investment income earned	$ 9,110,758	
Net realized capital gains or (losses)	83,129	
Net investment gain or (loss)	$ 9,193,887	
Net gain (loss) from agents' or premium balances charged off	$ (31,094)	
Aggregate write-ins for miscellaneous income	20,266	
Total other income	$ (10,828)	
Net income before federal income taxes	16,078,323	
Dividends to policyholders	157,706	
Federal income taxes incurred	4,789,475	
Net Income	$ 11,131,142	

Capital and Surplus Account

Surplus as regards policyholders, December 31, 2005	$72,309,820
Net income	11,131,142
Change in net unrealized capital gains (losses)	20,522
Net change in unrealized foreign exchange capital (loss)	(294,322)
Change in net deferred income tax	363,105
Change in non-admitted assets	(1,215,856)
Change in provision for reinsurance	418,742
Aggregate write-ins for gains and losses in surplus	454,260
Change in surplus as regards policyholders for the year	$ 10,877,593
Surplus as regards policyholders, December 31, 2006	$83,187,413

SCHEDULE OF EXAMINATION ADJUSTMENTS

No examination adjustments were made as a result of this examination.

NOTES TO FINANCIAL STATEMENTS

Note 1

Bonds	**$211,584,813**

The Company's bond holdings totaled $211.6 million and comprised 68% of total admitted assets and 88% of the Company's total invested assets. Securities for the year ending 2006 were comprised of the following:

U.S. Government	$ 36.0 million
Special Revenue	22.2 million
Public Utilities	25.8 million
Industrial and Miscellaneous	127.6 million
	$211.6 million

Of the Company's total bond holdings, $169.4 million or 80% were Class 1, with respect to NAIC credit quality standards. The remaining bonds were Class 2 with a book value of $40.2 million and a Class 4 security with a book value of $2 million. All investments were rated by the SVO, Moody's, and Standard and Poor's with similar quality ratings.

Note 2

Loss Reserves	**$64,704,780**
Loss Adjustment Expense Reserves	**$19,163,001**

Loss and loss adjustment expense reserves represent 37.1% of the Company's liabilities as of December 31, 2006. Incurred but not reported reserves (IBNR) constituted 64.5%, or $54,089,000 of loss and loss adjustment expense reserves at year-end 2006.

The firm of Merlinos and Associates (Merlinos) was retained by the Indiana Department of Insurance to conduct a review of the Company's reserve methodologies and adequacy. Merlinos evaluated the Company's book of business by line of business for loss and allocated loss adjustment expenses. The conclusions reached by Merlinos are based upon information supplied by the Company's staff, which included an in-depth actuarial analysis. The Merlinos reserve analysis was performed on both a gross basis and net of reinsurance and did not address the collectability of reinsurance recoverables. The Merlinos reserve review found the Company's combined net loss and loss adjustment expense reserves were adequate to support the business underwritten.

The underlying data was tested through a review of open and paid claim files and actual payments made with no exceptions noted. The aggregated actuarial data provided by the Company was verified, and reconciled to Schedule P of the Company's filed annual statement.

Loss and loss adjustment expense reserves are subject to errors of estimation arising from the fact that the ultimate liability for claims evaluated as of the valuation date are dependent on future contingent events which cannot always be anticipated. The possible occurrence of such events, as well as the inherent uncertainty associated with statistical estimates, allows no guarantee that the actual ultimate liabilities will be the same as the reserve levels described in this examination report. As a result of this study, the reserves were accepted as reported by the Company at December 31, 2006.

COMPLIANCE WITH PRIOR REPORT RECOMMENDATIONS

(1) It is recommended that a signed confirmation of reinsurance participation be obtained timely and maintained in orderly form for retrieval as necessary to document a valid reinsurance contract exists between the parties.

The Company has complied.

(2) It is recommended that the Company develop and implement procedures related to filing exempt securities.

Due to changes in procedures, the recommendation is no longer applicable.

(3) It is recommended that the Company maintain proper documentation to support the purchase and sale of all securities.

The Company has complied.

SUMMARY OF RECOMMENDATIONS

Based on the results of the examination, no recommendations were made.

CONCLUSION

As a result of this examination, the financial condition of the Chubb Custom Insurance Company, as of December 31, 2006, was determined as follows:

Description	December 31, 2006 Current Examination	December 31, 2001 Prior Examination	Changes Increase (Decrease)
Assets	$ 309,146,531	$137,061,735	$ 172,084,796
Liabilities	225,959,118	95,175,374	130,783,744
Common capital stock	3,750,000	3,750,000	-0-
Gross paid in and contributed capital	30,850,000	20,850,000	10,000,000
Unassigned funds (surplus)	48,587,413	17,286,361	31,301,052
Total surplus as regards policyholders	83,187,413	41,886,361	41,301,052
Totals	$ 309,146,531	$137,061,735	$ 172,084,796

Since the last examination, the Company's assets have increased $172,084,796; liabilities have increased $130,783,744 and capital and surplus increased $41,301,052.

Respectfully submitted,

Anthony C. Cardone, CFE
Examiner-in-Charge
State of Delaware
Northeastern Zone, NAIC

SUBSEQUENT EVENTS

In May 2007, the Corporation announced it had completed a transaction whereby a series of catastrophe bonds were issued to cover a portion of Chubb's property catastrophe program. The bonds were issued by East Lane Re, a Cayman Islands domiciled company, and comprise two series of notes providing up to $225 million in loss reimbursement to Chubb in the event that property losses in the northeast U.S. corridor exceed stipulated amounts. The bond proceeds and quarterly premiums paid by Chubb are deposited into a trust to provide for future insured losses.

In October 2007, southern California experienced a number of major wildfires. As such, Chubb estimated its losses to be approximately $90 million. While the estimate of ultimate losses related to the wildfires may change in the future, Chubb does not expect the losses to have a material effect on the corporation's consolidated results of operations or financial condition.